

The Asia-Pacific Economic Cooperation (APEC) Meetings in Vladivostok, Russia: A Preview

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Summary

Russia will host the Asia-Pacific Economic Cooperation's (APEC) week-long series of senior-level meetings in Vladivostok on September 2-9, 2012. The main event for the week will be the 20th APEC Economic Leaders' Meeting to be held September 8-9, 2012. President Barack Obama will not attend the event; Secretary of State Hillary Clinton will lead the U.S. delegation.

As host for the 20th APEC Economic Leaders' Meeting, Russia has set the main agenda items as: advancing trade and investment liberalization and regional economic integration; strengthening food security; establishing reliable supply chains; and promoting cooperation to foster innovative growth. The United States hopes to complete priorities established at last year's Economic Leaders' Meeting in Honolulu and support Russia's agenda in cases where the two nations share a common objective.

On November 12-13, 2011, the United States hosted the 19th APEC Economic Leaders' Meeting in Honolulu. While in Honolulu, the nine leaders of negotiating nations—Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam—met and announced the broad outline for the Trans-Pacific Partnership (TPP) trade agreement, which to the United States and some other APEC members may serve as a stepping stone for a broader Free Trade Area of the Asia-Pacific open to all APEC members. However, not all APEC members support such a vision for the TPP.

Following the 19th APEC Economic Leaders' Meeting, the APEC leaders issued a declaration, reaffirming their opposition to protectionism and pledging to advance regional integration and the expansion of trade among APEC members. The leaders also agreed to set a cap tariff rate on "environmental goods" of 5%, and to phase out tariffs on environmental goods by 2015. However, they could not reach a final agreement on which goods would be considered "environmental goods."

Given the growing number of alternative regional events or organizations at which the United States can present its views, the heightened U.S. engagement in the Asia-Pacific region has raised questions about APEC's continued role and relevance in U.S. foreign policy. Since taking office, President Obama has strengthened ties with the Association of Southeast Asian Nations (ASEAN) and the East Asian Summit (EAS), raising questions about the roles of each of these groups in U.S. relations in the region. In addition, China has grown concerned about greater U.S. interest in the region, with some Chinese officials viewing it as part of a U.S. containment policy aimed at China.

Congressional interest in APEC has generally focused on three issues—implications for U.S. trade policy in general, potential effects on relations with China, and budgetary matters. On occasion, the trade liberalization measures proposed to APEC by the United States have required changes in U.S. trade laws. As an APEC member, the United States must contribute to the annual budget of APEC. The Congressional Budget Justification for FY2013 includes a request for \$1.028 million for APEC support.

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Main Points

Russia will host the Asia-Pacific Economic Cooperation's (APEC) week-long series of senior-level meetings in Vladivostok on September 2-9, 2012.¹ The main event for the week will be the 20th APEC Economic Leaders' Meeting to be held September 8-9, 2012. For the United States, the main points for these APEC meetings are the following.

- President Obama does not plan to attend the 2012 APEC Economic Leaders' Meeting. Secretary of State Hillary Clinton will represent the United States.
- As host, Russia has identified food security, supply chain reliability, and fostering innovative growth through cooperation as priorities for the meetings, in addition to APEC's general goals of trade and investment liberalization and regional economic integration.
- A major backdrop for the meeting will be the status of the ongoing Trans-Pacific Partnership (TPP) negotiations and the potential implications for APEC's future; all of the TPP-negotiating nations are APEC members.
- The U.S. priorities in Vladivostok are to build on the accomplishments made during the 19th APEC Economic Leaders' Meeting held in Honolulu on November 12-13, 2011; and to cooperate with Russia on the elements of the 2012 agenda for which the two nations share a common perspective.

Overview of APEC

The Asia-Pacific Economic Cooperation (APEC) was founded in 1989 for the purpose of promoting trade and investment liberalization in the Asia-Pacific as a means of fostering sustainable economic growth and prosperity in the region. APEC currently has 21 members: Australia, Brunei, Canada, Chile, China, Hong Kong (officially Hong Kong, China), Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, South Korea, Taiwan (officially Chinese Taipei), Thailand, the United States, and Vietnam. APEC is one of a few international organizations in which both China and Taiwan are members.

During the 1994 Economic Leaders' Meeting in Bogor, Indonesia, APEC members agreed to the Bogor Goals of "free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies." APEC has also made trade facilitation—changes in governmental procedures to increase the ease and efficiency of trade—a major priority.

APEC has three distinct features among multilateral trade organizations. First, all the liberalization measures taken by its members are voluntary. Members announce their liberalization measures via "Individual Action Plans" (IAPs). Second, these liberalization measures are generally extended to all economies—not just APEC members—under the concept of "open regionalism." Third, decisions are made by consensus rather than through a process of formal negotiations.

Over the years, APEC has been subject to some criticism, in part because of its lack of formal, binding agreements. However, APEC's proponents point to its accomplishments in lowering trade barriers and facilitating trade. Since APEC's inception, the average tariff rate among its members has declined from 16% to 5%, in part due the commitments made in the IAPs. An APEC trade

¹ A more detailed agenda for the APEC meetings in Vladivostok is listed in **Appendix A** to this report.

facilitation initiative from 2002 to 2006 lowered the cost of business transactions for APEC members by an average of 5%. According to some business leaders, APEC's trade facilitation efforts have had a greater effect on international trade in the region than formal trade agreements that selectively lower tariff rates.

According to APEC supporters, these APEC accomplishments have directly contributed to the growth in intra-APEC trade and the region's economic growth. Since 1989, intra-APEC trade has increased four-fold, significantly outpacing the growth in world trade. In 2011, APEC members had grown to account for 44% of global exports and 46% of global imports (see shaded box).

APEC's Share of World Trade, 2011

(in trillions of U.S. dollars)

	Exports	Imports
APEC	8.073	8.476
World	18.217	18.381
APEC's Share	44.31%	46.11%

Every year, a different APEC member organizes and hosts a series of meetings held throughout the year, including the annual Economic Leaders' Meeting, which is traditionally held in October or November. The United States was the host in 2011, Russia is this year's host, and Indonesia will be the host in 2013. This year's Economic Leaders' Meeting is being held in September in part due to anticipated weather conditions in Vladivostok, Russia's economic hub on its Pacific coast. The host member usually picks a theme for the year. Russia chose as the theme for 2012, "Integrate to Grow, Innovate to Prosper."

U.S. Trade Relations with APEC

The other 20 APEC members are important trading partners for the United States. Between 2001 and 2011, U.S. total trade with APEC increased from \$1.2 trillion to \$2.3 trillion. U.S. exports to APEC members over the same period rose from \$461 billion to \$894 billion; U.S. imports from APEC members jumped from \$751 billion to \$1.389 trillion. The U.S. trade deficit with other APEC members increased from \$290 billion in 2001 to \$495 billion in 2011. In 2011, 60% of U.S. exports went to APEC members and 63% of U.S. imports came from APEC members.

Table 1. U.S. Merchandise Trade with APEC, 2001 & 2011

(in billions of U.S. dollars)

	2001	2011
Exports	460.847	894.324
Imports	750.814	1,388.914
Total Trade	1,211.661	2,283.238
Balance of Trade	-289.967	-494.59

Source: U.S. International Trade Commission.

Six of the top 10 U.S. bilateral trading partners in 2011 were APEC members (see **Appendix B**). As a group, these six APEC members—Canada, China, Mexico, Japan, South Korea, and Taiwan—received 48.5% of U.S. exports and provided 54.6% of U.S. imports in 2011. Other significant U.S. trading partners in APEC include (by rank in terms of total trade with the United States): Singapore (15th; \$50.3 billion); Russia (20th; \$42.9 billion); Hong Kong (21st; \$40.9 billion); Malaysia (22nd; \$40.0 billion); and Australia (24th; \$37.8 billion).

The November 2011 APEC Meetings in Honolulu

On November 12-13, 2011, the United States hosted the 19th APEC Economic Leaders' Meeting in Honolulu. President Obama was joined by the leaders of the other 20 APEC members, or their chosen representatives.² The U.S. President held separate bilateral meetings (in chronological order) with Japan's Prime Minister Yoshihiko Noda, Russia's President Dmitry Medvedev, and China's President Hu Jintao.

In addition, the nine leaders of the nations that were then negotiating the TPP agreement—Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam—met and announced what the Office of the U.S. Trade Representative (USTR) described as “the broad outlines of an ambitious, 21st century Trans-Pacific Partnership (TPP) agreement.”³ According to USTR, the outline calls for a full regional agreement that provides for comprehensive market access for goods and services, addresses emerging trade issues, and provides for the accession of new members. Since the Honolulu meeting, Canada and Mexico have been accepted into the TPP negotiations, and Japan is considering joining the talks. In a speech given during the Honolulu meetings, President Obama stated, “Along with our trade agreements with South Korea, Panama, and Colombia, the TPP will also help achieve my goal of doubling U.S. exports, which support millions of American jobs.”⁴

As is the tradition, a Leaders' Declaration was released following the two-day event. Entitled “The Honolulu Declaration—Toward a Seamless Regional Economy,” the 2011 declaration:

- reaffirmed the members' pledge against protectionism;
- affirmed that APEC's core mission “continues to be further integration of our economies and expansion of trade among us”;
- indicated that APEC pursues its core mission “by addressing next-generation trade and investment issues, including through our trade agreements and a Free Trade Area of the Asia-Pacific [FTAAP]”;
- stated a shared commitment to “green growth” by “speeding the transition toward a global low-carbon economy,” including the phasing out of “inefficient fossil-fuel subsidies” and measures to prohibit trade in illegally harvested forest products;
- pledged APEC members to pursue regulatory reform and convergence to eliminate “unjustifiably burdensome and outdated regulation”; and
- committed APEC members to “take concrete actions to expand economic opportunities for women.”⁵

For the United States, another important outcome of the 2011 APEC Economic Leaders' Meeting was the agreement to set a cap tariff rate on “environmental goods” of 5%, and to phase out tariffs on environmental goods by 2015. However, the 21 APEC members could not reach a final agreement on which goods would be considered “environmental goods.”

² For political reasons, the President of Taiwan sends a representative. Leaders from other APEC member economies have sent representatives in the past, generally due to important domestic matters.

³ Office of the U.S. Trade Representative, *Outlines of the Trans-Pacific Partnership Agreement*, November 12, 2011.

⁴ White House, “President Obama at the Asia-Pacific Economic Cooperation (APEC),” press release, November 13, 2011.

⁵ Asia-Pacific Economic Cooperation, “2011 Leaders' Declaration,” press release, November 13, 2011.

The Agenda for the 2012 Economic Leaders' Meeting

As host for the 20th APEC Economic Leaders' Meeting, Russia has the lead in setting the agenda for the two-day event. According to the APEC 2012 webpage,⁶ the main priorities are:

- trade and investment liberalization and regional economic integration;
- strengthening food security;
- establishing reliable supply chains; and
- intensive cooperation to foster innovative growth.

In order to address those priorities, Russia has promoted discussions about improving transportation infrastructure in the region, enhancing information and communications technology, and advancing regulatory reform and facilitation. This will be the first APEC meeting at which Russia is a member of the World Trade Organization.

The United States has several objectives for this year's meeting in Vladivostok, either to complete priorities established in Honolulu or in cooperation with Russia's agenda.⁷ The United States hopes to conclude the discussion of which goods will qualify as "environmental goods," and thereby fall under the tariff phase-out agreed to last year in Honolulu. Similarly, the United States would like APEC to continue its efforts begun in 2011 to improve supply chain efficiency by identifying and eliminating technical choke points in the operation and regulation of international trade. In May 2012, APEC held a meeting on food security in Kazan, Russia, at which its members made a commitment to support sustainable agriculture and facilitate trade in agricultural goods. The United States would like to continue this discussion of food security, and adopt a more explicit statement regarding restrictions on the export of agricultural goods.

One area where Russia and the United States differ concerns education. Russia and some other APEC members would like to explore the mutual accreditation of tertiary education degrees, but the United States and another group of APEC members have serious concerns about this initiative.

APEC and Other Regional Fora

Since its beginning, the Obama Administration has signaled that the Asia-Pacific region is a foreign policy priority, and that APEC has an important role in U.S. relations in the region.⁸ Besides several high-level trips to Asia, the Obama Administration has sought to strengthen U.S. ties to the region. In 2011, the United States officially joined the East Asia Summit (EAS),⁹ "a forum for dialogue on broad strategic, political *and economic issues* [emphasis added] of common interest and concern with the aim of promoting peace, stability and economic prosperity in East Asia."¹⁰ The United States has also enhanced relations with the Association of Southeast Asian Nations (ASEAN), by appointing the first resident U.S. Ambassador to ASEAN (David L. Carden, confirmed by the Senate on May 4, 2011) and initiating an annual U.S.-ASEAN Summit.

⁶ <http://www.apec2012.ru/>

⁷ Based on CRS interviews with U.S. government officials involved with the APEC meetings, August 2012.

⁸ For a discussion of the role of the Asia-Pacific region in U.S. foreign policy, see CRS Report R42448, *Pivot to the Pacific? The Obama Administration's "Rebalancing" Toward Asia*, coordinated by Mark E. Manyin.

⁹ The 18 EAS members are Australia, Brunei, Burma (Myanmar), Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, New Zealand, the Philippines, Russia, Singapore, South Korea, Thailand, the United States, and Vietnam.

¹⁰ Text of the Kuala Lumpur Declaration is available online at <http://www.asean.org/23298.htm>.

The heightened U.S. engagement in the Asia-Pacific region has raised questions about APEC's continued role and relevance in U.S. foreign policy, particularly given the growing number of alternative regional events or organizations at which the United States can present its views. The Obama Administration has stated that the "rebalancing" of U.S. foreign policy towards Asia has a significant economic component, but there are a plethora of economic and trade groupings in the region. The Obama Administration frequently has portrayed APEC as the premier economic and trade organization in the Asia-Pacific region, and views the EAS as the main geopolitical association in the region. This view is not shared by all of the other members of these two associations.

The Obama Administration has also actively pursued progress in the ongoing TPP negotiations, promoting the potential trade agreement as a stepping stone for creating the FTAAP envisioned by APEC. Not all of APEC's members agree with this representation of the TPP and some do not share the U.S. conceptualization of a future FTAAP. Some Chinese scholars and officials have expressed considerable concern about U.S. motivations behind fostering a comprehensive free trade agreement in the Asia-Pacific region, perceiving TPP as part of a U.S. containment policy aimed at China. Some observers challenge the consistency of a negotiated, binding, and discriminatory TPP with APEC's Bogor Goals and its consensus-based, voluntary, "open regionalism" approach to trade and investment liberalization.

In addition, along with reemphasizing the importance of APEC to the region, the Obama Administration has spoken extensively about the "central role" of ASEAN in Asia-Pacific relations. While 7 of the 10 ASEAN members are also APEC members,¹¹ there remains some tension between the supposed importance of APEC as the primary path for regional economic integration and the U.S. view of ASEAN as the pivotal player in regional relations. The 10 ASEAN members have already concluded a free trade agreement amongst themselves, as well as with China, India, Japan, and South Korea, and are negotiating a free trade agreement with the European Union. ASEAN also is central to the ongoing ASEAN+3 (China, Japan, and South Korea) and ASEAN+6 (Australia, China, India, Japan, New Zealand, and South Korea) free trade agreement negotiations. It is unclear if the United States would welcome the conclusion of a free trade agreement between ASEAN and other nations that did not include the United States.

Implications for Congress

Congressional interest in APEC has generally focused on three issues—implications for U.S. trade policy in general, potential effects on relations with China, and budgetary matters. APEC's original vision of a voluntary "open regionalism" approach to trade and investment liberalization has proven difficult to implement in the traditional U.S. structure of binding trade agreements. On occasion, the trade liberalization measures proposed to APEC by the United States in its Individual Action Plan (IAP) have required changes in U.S. trade laws (such as the lowering of tariff rates) or trade policy. On November 12, 2011, the 112th Congress passed the Asia-Pacific Economic Cooperation Business Travel Card Act of 2011 (P.L. 112-54), authorizing the Secretary of Homeland Security to issue APEC Business Travel Cards, which allow expedited immigration processing through airline crew lanes upon arrival at any U.S. international airport port of entry, but are not a substitute for an entry visa (if required).

Over the last few years, APEC has emerged as an issue in U.S. relations with China. While some U.S. observers are apprehensive about China's growing assertiveness in Asia and its active

¹¹ The 10 ASEAN members are Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Burma, Cambodia, and Laos are not APEC members.

program to negotiate free trade agreements in the region, some Chinese officials and scholars view the U.S. effort to use APEC to promote an FTAAP and negotiate a TPP without China's participation as part of a greater U.S. strategy of containment of China.

Finally, as an APEC member, the United States must contribute to the annual budget of APEC to maintain the APEC Secretariat in Singapore and finance various APEC activities and programs. In previous fiscal years, the level of direct U.S. financial support for APEC was \$901,000 per year. Congress appropriated additional funds in fiscal years 2009, 2010, and 2011 to finance preparations and programs related to hosting APEC in 2011.¹² The Congressional Budget Justification for FY2013 includes a request for \$1.028 million for APEC support.

¹² The Congress appropriated \$2.300 million in FY2009 and \$4.497 million in FY2010 for the 2011 meetings. In his proposed FY2011 budget, President Obama requested an additional \$38.220 million for hosting APEC meetings in 2011. Congress appropriated \$47.785 million in FY2011 to the Office of International Conferences, to be used in part to finance the APEC meetings.

Appendix A. Agenda for APEC Meetings in Vladivostok, Russia

Chronology

September 2-3	Senior Officials Meeting
September 4-6	APEC Business Advisory Council (ABAC) Meeting
September 5-6	Ministerial Meeting
September 7-8	APEC CEO Summit
September 8-9	Economic Leaders' Meeting

Appendix B. U.S. Trade with APEC

Trade with the 20 other APEC members constitutes a major component of U.S. merchandise trade. The top 3 U.S. trading partners in 2011 are APEC members, as are 6 in the top 10. The following table lists the U.S. exports, imports, total trade and balance of trade with each of the 20 other APEC members.

Table B-1. U.S. Merchandise Trade with APEC by Member, 2011

(in millions of U.S. dollars)

Country	Exports	Imports	Total Trade	Balance of Trade
Australia (24)	27,516	10,240	37,756	17,276
Brunei (146)	184	23	207	161
Canada (1)	280,764	316,511	597,275	-35,747
Chile (29)	15,873	9,069	24,942	6,804
China (2)	103,879	399,335	503,214	-295,456
Hong Kong (21)	36,513	4,298	40,811	32,215
Indonesia (28)	7,415	19,111	26,526	-11,696
Japan (4)	66,168	128,811	194,979	-62,643
South Korea (7)	43,505	56,636	100,141	-13,131
Malaysia (22)	14,218	25,772	39,990	-11,554
Mexico (3)	197,544	263,106	460,650	-65,562
New Zealand (56)	3,571	3,160	6,731	411
Papua New Guinea (123)	304	142	446	162
Peru (42)	8,319	6,236	14,555	2,083
Philippines (35)	7,706	9,143	16,849	-1,437
Russia (20)	8,285	34,573	42,858	-26,288
Singapore (15)	31,393	19,111	50,504	12,282
Taiwan (10)	25,898	41,328	67,226	-15,430
Thailand (27)	10,928	24,826	35,754	-13,898
Vietnam (30)	4,341	17,485	21,826	-13,144
Total	894,324	1,388,914	2,283,238	-494,590

Source: U.S. International Trade Commission.

Note: Number in parentheses is global ranking in terms of total trade with the United States.

Author Information

Michael F. Martin
Specialist in Asian Affairs

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